

City of Eastpointe, Michigan

Financial Report with Supplemental Information June 30, 2003

City of Eastpointe, Michigan

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City of Eastpointe, Michigan

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Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Eastpointe, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Eastpointe, Michigan as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Eastpointe, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Eastpointe, Michigan as of June 30, 2003 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the Honorable Mayor and Members
of the City Council
City of Eastpointe, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Eastpointe, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note I, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2002.

Plante & Moran, PLLC

October 20, 2003

City of Eastpointe, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Eastpointe's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2003:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$174,000 this year. The City reacted by reducing programs, staffing levels, capital spending, and by invoking tighter controls over all expenditures. The result of the City taking these proactive measures in the area of expenditure control was an increase in fund balance of \$965,822.
- Total net assets related to the City's governmental activities increased by approximately \$4.1 million. However, the unrestricted portion of net assets decreased by approximately \$1.3 million (see table of net assets on the following page).

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets (deficit) and the statement of activities provide information about the activities of the City of Eastpointe as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

The City of Eastpointe as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current assets	\$ 8,157	\$ 6,921	\$ 8,402	\$ 7,025	\$ 16,559	\$ 13,946
Noncurrent assets	22,862	19,815	11,430	11,625	34,292	31,440
Total assets	31,019	26,736	19,832	18,650	50,851	45,386
Current liabilities	1,223	1,704	842	713	2,065	2,417
Long-term liabilities	15,636	15,000	62	-	15,698	15,000
Total liabilities	16,859	16,704	904	713	17,763	17,417
Net assets:						
Invested in capital assets -						
Net of related debt	8,506	6,180	8,213	8,533	16,719	14,713
Restricted	3,409	308	3,218	3,092	6,627	3,400
Unrestricted	2,245	3,544	7,497	6,312	9,742	9,856
Total net assets	<u>\$ 14,160</u>	<u>\$ 10,032</u>	<u>\$ 18,928</u>	<u>\$ 17,937</u>	<u>\$ 33,088</u>	<u>\$ 27,969</u>

The City of Eastpointe's combined net assets increased approximately 18 percent from a year ago, from approximately \$28.0 million in 2002 to \$33.1 million in 2003. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$4.1 million in net assets, or 41.2 percent during fiscal 2003. The business-type activities experienced a \$991,000 increase in net assets, or 5.5 percent. This is due in part to the settlement of an overcharge dispute with the Detroit Water Department, resulting in a credit of \$146,000 for water purchased.

Unrestricted net assets, the portion of net assets which can be used to finance day-to-day operations, decreased by approximately \$1.3 million for the governmental activities. This represents a decrease of approximately 36.6 percent. The current level of unrestricted net assets for our governmental activities stands at \$2.2 million, or about 9.9 percent of expenses. This meets the targeted range set by the City Council during its budgeting process.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year:

TABLE 2

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 3,846	\$ 8,035	\$ 11,881
Operating grants and contributions	2,216	-	2,216
Capital grants and contributions	549	-	549
General revenue:			
Property taxes	12,282	-	12,282
State-shared revenue	4,373	-	4,373
Interest	114	85	199
Bond refundings	2,412	-	2,412
Gain on sale of capital assets	7	1	8
Cable fees and other	264	62	326
Transfers and other revenue	736	(736)	-
Total revenue	26,799	7,447	34,246
Program Expenses			
General government	6,029	-	6,029
Public safety	9,411	-	9,411
Public works	4,284	-	4,284
Recreation and culture	2,556	-	2,556
Interest on long-term debt	392	-	392
Water and sewer	-	6,456	6,456
Total program expenses	22,672	6,456	29,128
Change in Net Assets	\$ 4,127	\$ 991	\$ 5,118

Governmental Activities

The City of Eastpointe's total governmental revenues were approximately \$26.8 million, despite decreases in State-shared revenue, building permits, and interest income. These decreases were offset by a slight increase in property taxes along with an increase in municipal court revenue.

Governmental activity expenditures of approximately \$22.7 million were recorded for the year. This included large increases in health care costs and property and liability insurance rates. To offset this, the City closely monitored its spending in all other areas, including seasonal hiring, programs, overtime hours, and capital purchases.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City of Eastpointe's business-type activity consists of the Water and Sewer Fund. The City provides to residents water purchased from the City of Detroit Water System. The City provides sewage treatment through the Southeast Macomb Sanitary District. Fiscal year 2003 was a drier-than-average year, which resulted in a marked increase in the volume of water sold. In addition, the City of Eastpointe's water loss was the lowest it has been in the previous five years. These combined two factors resulted in an increase in operating income.

The City of Eastpointe's Funds

Our analysis of the City of Eastpointe's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City of Eastpointe as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as State of Michigan Act 51 major and local road revenue sharing and the voted special property tax millages. The City of Eastpointe's major funds for 2003 include the General Fund, the Fire Fund, the Garbage and Rubbish Collection Fund, Major and Local Streets Funds, the Capital Improvement Fund, and the SEMSD Clean Water Initiative Fund.

The General Fund accounts for most of the City's governmental services. The most significant is police, which incurred expenditures of approximately \$5.6 million in 2003. The cost of the police department is funded by other general revenue sources of the General Fund. Fire services are supported by General Fund contributions and a special ALS/Fire millage, all of which are recorded in the Fire Fund. This fund recorded the receipt of approximately \$625,000 from the special millage and a transfer from the General Fund. The amount transferred from the General Fund is determined based on estimated costs to maintain ALS/Fire services, as well as specific capital outlay approved by the City Council. During the current year, this amounted to approximately \$1.8 million. The Equipment Replacement Fund is used by the City to account for most capital outlay expenditures. Transfers from other funds, antenna lease revenue, and equipment rental fees support this fund.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the City Council and City administration monitor and amend the budget to take into account unanticipated events during the year. The most significant change was a decrease in State-shared revenue. Prudent budgeting and continued monitoring of all expenditures reduced the effect of these State cuts. At year end, actual General Fund revenues came in \$54,465 over the amended budget. The City of Eastpointe's departments overall stayed below budget, resulting in total expenditures \$876,595 below budget. Expenditures were under budget primarily due to savings from personnel vacancies and reduced recreational programs. Mid-year, and again at year end, the City amended the budget to reflect reductions in health care costs and debt obligations. The reduction in debt obligations was accomplished by the defeasance of the South Macomb Disposal Authority Remediation Bonds in March 2003. In addition, departments were required to find expenditure savings to offset unanticipated increases in expenditures related to land acquisitions of foreclosed properties, an increase in liability insurance, and police overtime. As a result, the General Fund's fund balance increased from \$2,773,698 a year ago to \$3,739,520 at June 30, 2003.

Capital Asset and Debt Administration

At the end of 2003, the City of Eastpointe had \$30.7 million invested in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, and water and sewer lines. The City of Eastpointe has invested significantly in roads within the major and local street system, sidewalks, and water and sewer lines since 1980. The value of infrastructure assets, net of depreciation contained in this report, is \$22 million for fiscal year 2003. Included in the infrastructure assets is \$9.9 million for infrastructure construction in progress for the Lake St. Clair Clean Water Initiative.

Debt reported in these financial statements is related to the construction of the above-mentioned infrastructure assets and buildings and is reported as a liability on the statement of net assets (see Note 6 of the notes to the basic financial statements for additional information).

Economic Factors and Next Year's Budgets and Rates

The City of Eastpointe's budget for next year calls for a minimal increase of 1.5 percent on property tax rates, based on the rate of inflation. Because of the impact of Proposal A, however, the City needs to continue to monitor its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions. State revenue-sharing payments were decreased again this past year and are likely to decrease again due to State cutbacks and less sales tax receipts at the State level. These factors, coupled with recent decreases from historical norms in other revenues, including charges for services and interest on investments, continue to have a major impact on the City's ability to balance its budget.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

Despite these concerns, the City will continue to operate as efficiently as possible in the next fiscal year. Various personnel positions will remain vacant, with reduced departmental budgets and minimal capital spending budgeted for the next year. We expect continued annual increases in health care costs of nearly 10-15 percent each year. Additionally, the cost of funding retiree health care will increase proportionately. The City's pension system, while fully funded, is anticipating increased contributions due to negotiated changes in benefits and declining stock market and investment returns.

The City purchases its water from the City of Detroit, which forecasts increases averaging 10 percent annually for the next five years. The City must pass on these increases to its customers through its water rate. The City's water and sewer rates are based on anticipated costs of the system in the current fiscal year. Costs include the purchase of water from Detroit, disposal and treatment of sewage, personnel and operating costs, and needed system improvements. The water rates will have to increase somewhat in 2004 as costs are passed on to the City. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2004 to discuss the need for such an increase. This information will also be presented to the public during the City's budgeting process.

Contacting the City of Eastpointe's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Eastpointe's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the administration offices at city hall.

City of Eastpointe, Michigan

Statement of Net Assets (Deficit) June 30, 2003

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 5,445,514	\$ 4,780,060	\$ 10,225,574	\$ 107,960
Receivables:				
Taxes	82,429	-	82,429	-
Special assessments	125,402	-	125,402	-
Accounts - Net of allowance for doubtful accounts of \$144,374	333,820	3,599,756	3,933,576	4,547
Due from other governmental units	2,162,534	-	2,162,534	-
Inventories	-	21,755	21,755	-
Prepaid costs and other assets	7,054	-	7,054	16,242
Investments in joint ventures (Note 10):				
Southeast Macomb Sanitary District	-	3,217,456	3,217,456	-
South Macomb Disposal Authority	358,624	-	358,624	-
Capital assets (Note 4):				
Nondepreciable capital assets	11,519,509	-	11,519,509	-
Depreciable capital assets	10,984,197	8,213,341	19,197,538	-
Total assets	31,019,083	19,832,368	50,851,451	128,749
Liabilities				
Accounts payable	439,075	770,058	1,209,133	-
Accrued and other liabilities	784,201	72,688	856,889	1,362
Noncurrent liabilities (Note 6):				
Due within one year	596,869	-	596,869	65,000
Due in more than one year	15,039,057	61,677	15,100,734	575,000
Total liabilities	16,859,202	904,423	17,763,625	641,362
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	8,506,050	8,213,341	16,719,391	-
Restricted:				
Sewage disposal	-	3,217,456	3,217,456	-
Public safety	146,741	-	146,741	-
Sanitation	830,142	-	830,142	-
Construction projects	583,120	-	583,120	-
Streets and highways	1,636,656	-	1,636,656	-
Debt service	212,159	-	212,159	-
Unrestricted	2,245,013	7,497,148	9,742,161	(512,613)
Total net assets (deficit)	\$ 14,159,881	\$ 18,927,945	\$ 33,087,826	\$ (512,613)

City of Eastpointe, Michigan

	Expenses	Program Revenues		
		Charges for	Operating Grants and Contributions	Capital Grants and Contributions
		Services		
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 6,028,835	\$ 3,024,794	\$ 97,297	\$ -
Public safety	9,411,243	155,400	139,592	-
Public works	4,283,577	116,928	1,950,226	549,403
Recreation and culture	2,557,062	549,093	29,357	-
Interest on long-term debt	391,526	-	-	-
Total governmental activities	22,672,243	3,846,215	2,216,472	549,403
Business-type activities - Water and sewer	6,456,557	8,033,728	-	-
Total primary government	<u><u>\$ 29,128,800</u></u>	<u><u>\$ 11,879,943</u></u>	<u><u>\$ 2,216,472</u></u>	<u><u>\$ 549,403</u></u>
Component unit - Downtown Development Authority:				
Community enrichment and development	\$ 80,979	\$ 4,709	\$ 100	\$ -
Interest on long-term debt	40,200	-	-	-
Total component units	<u><u>\$ 121,179</u></u>	<u><u>\$ 4,709</u></u>	<u><u>\$ 100</u></u>	<u><u>\$ -</u></u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Bond refundings (Note 6)				
Gain on sale of capital assets				
Cable fees and other				
Transfers				
Total general revenues, special items, and transfers				
Change in Net Assets				
Net Assets (Deficit) - Beginning of year - As restated (Note 1)				
Net Assets (Deficit) - End of year				

Statement of Activities
Year Ended June 30, 2003

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (2,906,744)	\$ -	\$ (2,906,744)	\$ -
(9,116,251)	-	(9,116,251)	-
(1,667,020)	-	(1,667,020)	-
(1,978,612)	-	(1,978,612)	-
(391,526)	-	(391,526)	-
(16,060,153)	-	(16,060,153)	-
-	1,577,171	1,577,171	-
(16,060,153)	1,577,171	(14,482,982)	-
-	-	-	(76,170)
-	-	-	(40,200)
-	-	-	(116,370)
12,281,990	-	12,281,990	174,882
4,373,016	-	4,373,016	-
113,903	85,460	199,363	2,401
2,412,000	-	2,412,000	-
6,785	1,225	8,010	-
264,322	62,342	326,664	-
735,660	(735,660)	-	-
20,187,676	(586,633)	19,601,043	177,283
4,127,523	990,538	5,118,061	60,913
10,032,358	17,937,407	27,969,765	(573,526)
\$ 14,159,881	\$ 18,927,945	\$ 33,087,826	\$ (512,613)

City of Eastpointe, Michigan

	Major Special Revenue Funds				
	Garbage and Rubbish				
	General	Fire	Collection	Major Streets	Local Streets
Assets					
Cash and cash equivalents (Note 3)	\$ 2,266,699	\$ 99,257	\$ 607,096	\$ 595,848	\$ 793,278
Receivables:					
Taxes	82,429	-	-	-	-
Special assessments	-	-	-	-	-
Accounts - Net of allowance for doubtful accounts of \$144,374	192,536	134,482	6,802	-	-
Prepaid expenses	7,054	-	-	-	-
Due from other funds (Note 5)	13,357	-	-	-	-
Due from other governmental units	1,797,226	-	-	224,040	88,193
Total assets	\$ 4,359,301	\$ 233,739	\$ 613,898	\$ 819,888	\$ 881,471
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 125,444	\$ 6,910	\$ 142,380	\$ 26,368	\$ 19,405
Accrued and other liabilities	382,497	80,088	-	7,940	10,990
Due to other funds	786	-	-	-	-
Deferred revenue	111,054	-	-	-	-
Total liabilities	619,781	86,998	142,380	34,308	30,395
Fund Balances					
Reserved for prepaid expenses	7,054	-	-	-	-
Unreserved	3,732,466	146,741	471,518	785,580	851,076
Unreserved, reported in:					
Special Revenue Funds	-	-	-	-	-
Debt Service Funds - Designated for debt service	-	-	-	-	-
Capital Projects Funds - Designated for capital improvements	-	-	-	-	-
Total fund balances	3,739,520	146,741	471,518	785,580	851,076
Total liabilities and fund balances	\$ 4,359,301	\$ 233,739	\$ 613,898	\$ 819,888	\$ 881,471

**Governmental Funds
Balance Sheet
June 30, 2003**

Major Capital Projects Funds		Other Nonmajor Governmental Funds	Total Governmental Funds
Capital Improvement	SEMSD Clean Water Initiative		
\$ 276,586	\$ -	\$ 806,750	\$ 5,445,514
-	-	-	82,429
125,402	-	-	125,402
-	-	-	333,820
-	-	-	7,054
-	-	786	14,143
-	-	53,075	2,162,534
\$ 401,988	\$ -	\$ 860,611	\$ 8,170,896
\$ 107,462	\$ -	\$ 11,106	\$ 439,075
-	-	28,173	509,688
-	-	13,357	14,143
118,391	-	-	229,445
225,853	-	52,636	1,192,351
-	-	-	7,054
176,135	-	-	6,163,516
-	-	188,831	188,831
-	-	212,159	212,159
-	-	406,985	406,985
176,135	-	807,975	6,978,545
\$ 401,988	\$ -	\$ 860,611	\$ 8,170,896

City of Eastpointe, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets (Deficit) June 30, 2003

Total Fund Balances for Governmental Funds	\$ 6,978,545
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Amounts reported for governmental activities in the statement of net assets (deficit) are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	22,503,706
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Certain receivables are expected to be collected over several years in the General Fund and are not available to pay for current year expenditures	111,054
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Special assessment receivables are expected to be collected over several years, and are not available to pay for current year expenditures	118,391
--	---------

Long-term bonds payable are not due and payable in the current period and are not reported in the funds	(13,997,657)
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Investment in joint venture is not included as an asset in the governmental funds	358,624
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Long-term portion of compensated absences are not due and payable in the current period and are not reported in the funds	(1,270,089)
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Accrued interest payable is not reported in the funds	(274,513)
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Long-term portion of uninsured losses is not reported in the funds	<u>(368,180)</u>
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Net Assets of Governmental Activities	<u>\$ 14,159,881</u>
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City of Eastpointe, Michigan

	General	Fire Fund	Garbage and Rubbish Collection	Major Streets
Revenue				
Property taxes	\$ 8,423,226	\$ 625,832	\$ 1,630,056	\$ -
Special assessments	-	-	-	-
Licenses and permits	658,219	-	-	-
Intergovernmental:				
Federal sources	-	-	-	-
State sources	4,406,498	-	-	1,436,994
Charges for services	326,251	244,184	21,945	-
Rental income	146,637	-	-	-
Fines and forfeits	1,895,708	-	-	-
Interest income	58,217	768	14,313	6,388
Other	272,933	-	-	-
Total revenue	16,187,689	870,784	1,666,314	1,443,382
Expenditures				
Current:				
General government	5,383,419	-	-	-
Public safety	6,163,907	2,527,585	-	-
Public works	351,970	-	1,454,272	965,528
Recreation and culture	1,427,574	-	-	-
Capital outlay	-	-	-	-
Construction and development	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	13,326,870	2,527,585	1,454,272	965,528
Excess of Revenue Over (Under) Expenditures	2,860,819	(1,656,801)	212,042	477,854
Other Financing Sources (Uses)				
Transfers in	410,700	1,821,822	-	-
Transfers out	(2,305,697)	(134,000)	-	(234,685)
City's share of county-issued bond obligations	-	-	-	-
Total other financing sources (uses)	(1,894,997)	1,687,822	-	(234,685)
Net Change in Fund Balances	965,822	31,021	212,042	243,169
Fund Balances - Beginning of year	2,773,698	115,720	259,476	542,411
Fund Balances - End of year	<u>\$ 3,739,520</u>	<u>\$ 146,741</u>	<u>\$ 471,518</u>	<u>\$ 785,580</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2003

Local Streets	Capital Improvement	SEMSD Clean Water Initiative	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 1,602,876	\$ 12,281,990
-	401,977	-	-	401,977
-	-	-	-	658,219
-	-	-	139,312	139,312
510,731	-	-	28,287	6,382,510
-	-	-	3,290	595,670
-	-	-	145,199	291,836
-	-	-	159,896	2,055,604
13,653	4,148	-	16,416	113,903
-	4,832	-	57,559	335,324
524,384	410,957	-	2,152,835	23,256,345
-	-	-	-	5,383,419
-	-	-	392,984	9,084,476
715,654	518,504	-	747,055	4,752,983
-	-	-	712,760	2,140,334
-	-	-	241,448	241,448
-	-	3,561,980	-	3,561,980
-	-	-	479,943	479,943
-	-	-	487,134	487,134
715,654	518,504	3,561,980	3,061,324	26,131,717
(191,270)	(107,547)	(3,561,980)	(908,489)	(2,875,372)
219,185	-	-	968,535	3,420,242
(10,200)	-	-	-	(2,684,582)
-	-	3,561,980	-	3,561,980
208,985	-	3,561,980	968,535	4,297,640
17,715	(107,547)	-	60,046	1,422,268
833,361	283,682	-	747,929	5,556,277
\$ 851,076	\$ 176,135	\$ -	\$ 807,975	\$ 6,978,545

City of Eastpointe, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds \$ 1,422,268

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	2,996,241
Special assessment revenues are recorded in the statement of activities when the assessment is made; they are not reported in the funds until collected or collectible within 60 days of year end	87,346
Revenue is reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	111,054
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	479,943
Bond proceeds are not reported as financing sources on the statement of activities	(3,561,980)
The effect of the SMDA bond refunding is not reported in the governmental funds	2,412,000
Change in investment in joint venture is not recorded in the governmental funds	50,955
Interest expense is reported in the statement of activities when a liability is incurred; they are reported in the governmental funds only when payment is due	95,608
Change in accumulated employee sick and vacation pay, as well as estimated general liability and workers' compensation claims, are recorded when earned in the statement of activities	34,088

Change in Net Assets of Governmental Activities \$ 4,127,523

City of Eastpointe, Michigan

Proprietary Fund - Enterprise Fund Statement of Net Assets June 30, 2003

	<u>Water and Sewer</u>
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 4,780,060
Customer receivables	3,599,756
Inventories	<u>21,755</u>
Total current assets	8,401,571
Noncurrent assets:	
Investment in Southeast Macomb Sanitary District (Note 10)	3,217,456
Capital assets - Net (Note 4)	<u>8,213,341</u>
Total noncurrent assets	<u>11,430,797</u>
Total assets	19,832,368
Liabilities	
Current liabilities:	
Accounts payable	770,058
Accrued and other liabilities	<u>72,688</u>
Total current liabilities	842,746
Noncurrent liabilities - Provision for compensated absences (Note 6)	<u>61,677</u>
Total liabilities	904,423
Net Assets	
Invested in capital assets	8,213,341
Restricted for sewage disposal	3,217,456
Unrestricted	<u>7,497,148</u>
Total net assets	<u><u>\$ 18,927,945</u></u>

City of Eastpointe, Michigan

Proprietary Fund - Enterprise Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2003

	<u>Water and Sewer</u>
Operating Revenue	
Water sales	\$ 1,869,775
Sewage disposal	3,797,268
Penalties	282,481
Charges for services	1,959,048
Other	<u>188,723</u>
Total operating revenue	8,097,295
Operating Expenses	
Water purchases	682,967
Sewage treatment	3,526,831
Maintenance and operation	361,058
General and administration	1,196,532
Other	98,283
Depreciation	<u>590,886</u>
Total operating expenses	<u>6,456,557</u>
Operating Income	1,640,738
Nonoperating Income - Interest income	<u>85,460</u>
Income - Before transfers to other funds	1,726,198
Transfers to Other Funds	<u>(735,660)</u>
Change in Net Assets	990,538
Net Assets - Beginning of year - As restated (Note 1)	<u>17,937,407</u>
Net Assets - End of year	<u><u>\$ 18,927,945</u></u>

City of Eastpointe, Michigan

Proprietary Fund - Enterprise Fund Statement of Cash Flows Year Ended June 30, 2003

	<u>Water and Sewer</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 7,908,573
Payments to suppliers	(5,639,132)
Payments to employees	(856,729)
Other receipts	<u>63,566</u>
Net cash provided by operating activities	1,476,278
Cash Flows from Noncapital Financing Activities - Operating transfers out	(735,660)
Cash Flows from Capital and Related Financing Activities - Purchase of capital assets	(270,823)
Cash Flows from Investing Activities - Interest received on investments	<u>85,460</u>
Net Increase in Cash and Cash Equivalents	555,255
Cash and Cash Equivalents - Beginning of year	<u>4,224,804</u>
Cash and Cash Equivalents - End of year	<u>\$ 4,780,059</u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 1,640,738
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	590,886
Changes in assets and liabilities:	
Receivables	(828,549)
Inventories	7,066
Investment in joint venture	(125,156)
Accounts payable	193,006
Accrued and other liabilities	<u>(1,713)</u>
Net cash provided by operating activities	<u>\$ 1,476,278</u>

City of Eastpointe, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2003

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 12,943,799	\$ 145,977
Investments (Note 3)	<u>34,569,386</u>	<u>-</u>
Total assets	47,513,185	<u><u>\$ 145,977</u></u>
Liabilities		
Accounts payable	51,516	\$ 6,437
Accrued and other liabilities	<u>-</u>	<u>139,540</u>
Total liabilities	<u>51,516</u>	<u><u>\$ 145,977</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 47,461,669</u></u>	

City of Eastpointe, Michigan

Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2003

Additions

Investment income:	
Interest and dividends	\$ 1,489,134
Net adjustment to fair value of investments	(135,501)
Less investment expenses	<u>(245,292)</u>
Net investment income	1,108,341
Employer contributions	<u>1,614,543</u>
Total additions	2,722,884

Deductions

Benefit payments	2,825,664
Health insurance premiums	1,429,610
Administrative expenses	<u>8,397</u>
Total deductions	<u>4,263,671</u>

Change in Net Assets	(1,540,787)
Net Assets - Beginning of year	<u>49,002,456</u>
Net Assets - End of year	<u><u>\$ 47,461,669</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Eastpointe, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Eastpointe, Michigan:

Reporting Entity

The City of Eastpointe, Michigan operates with the Council-Manager form of government. It is governed by a City Council consisting of a mayor and four council members who are elected at large to overlapping four-year terms. In accordance with the provisions of the City Charter, the City Council appoints, among others, the city manager and the finance director, each of whom reports directly to the City Council. The city manager is responsible for the administration of the affairs of the City, except for those affairs that are the responsibility of other appointed officials. The finance director is responsible for the administration of the financial affairs of the City, including keeping and supervision of accounts, collections of taxes, and the custody and disbursement of City funds.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Blended Component Units

The Building Authority of Eastpointe, an entity legally separate from the City, is governed by a three-member board appointed by the City Council. For financial reporting purposes, the Building Authority is reported as if it were a part of the City's operations because its purpose is to finance and construct buildings for the City. The operations of the Building Authority are reported as nonmajor Debt Service and Capital Projects Funds.

Note 1 - Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Unit

The City of Eastpointe Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the city manager and approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council. Complete financial statements for the Downtown Development Authority can be obtained from the administrative offices at 23200 Gratiot Avenue, Eastpointe, MI 48021.

The City has excluded the Economic Development Corporation since it is inactive. The City has also excluded the Housing Commission from this report since the City does not have the ability to impose its will.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the City (the primary government) and its discretely presented component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other revenue items properly excluded from program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, the proprietary fund, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual Enterprise Fund are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Fund - The Fire Fund accounts for fire safety and protection services/activities within the City. Funding is provided primarily through a local property tax levy and a transfer from the General Fund.

Garbage and Rubbish Collection Fund - The Garbage and Rubbish Collection Fund accounts for garbage and rubbish collection services/activities within the City. Funding is provided primarily through a local property tax levy.

Major Streets Fund - The Major Streets Fund accounts for maintenance and improvement activities for streets designated as "major" within the City. Funding is provided primarily through State-shared gas and weight taxes.

Local Streets Fund - The Local Streets Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is provided primarily through State-shared gas and weight taxes.

Capital Improvement Fund - The Capital Improvement Fund accounts for special assessment capital projects. Funding is provided primarily through the collection of special assessment district levies.

SEMSD Clean Water Initiative Fund - The SEMSD Clean Water Initiative Fund accounts for the City's share of expenditures associated with the Lake St. Clair Clean Water Initiative project. Funding is provided primarily through bond issues.

The City reports the following major Enterprise Fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage and storm water collection system. Funding is provided primarily through user charges.

Additionally, the City reports the following fund types:

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the activities of the employee benefit plans, which accumulate resources for pension and other post-employment benefit payments to qualified employees.

Note 1 - Summary of Significant Accounting Policies (Continued)

Agency Funds - The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organization, or other governments.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenue, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Properties are assessed as of December 31. These taxes are billed on July 1 of the following year and become a lien on December 1. These taxes are due September 1 with the final collection date of February 28 before they are added to the county tax rolls.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Infrastructure	40 years
Water and sewer distribution systems	40 years
Buildings and building improvements	20 years
Machinery and equipment	5 to 7 years

Note I - Summary of Significant Accounting Policies (Continued)

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when they have matured or come due for payment - generally when an individual's employment has terminated as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, and the deferred amount on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Infrastructure	40 years
Water and sewer distribution systems	40 years
Buildings and building improvements	20 years
Machinery and equipment	5 to 7 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounting Changes

GASB Statement No. 34 - Effective July 1, 2002, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). Changes to the City's financial statements as a result of GASB No. 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the City's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets (deficit) and statement of activities) prepared using full accrual accounting for all of the City's activities have been provided.
- Capital assets in the governmental activities column of the statement of net assets (deficit) includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the City as well as assets totaling \$18,128,333 previously reported in the General Fixed Assets Account Group. In addition, the governmental activities column includes bonds and other long-term obligations totaling \$14,999,975 previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.
- Funds previously reported as Expendable Trust Funds, including the Welfare and Catastrophe Fund, the Community Center Fund, the Eastpointe Fire Fund, and the Memorial Library Fund, with a combined fund balance of approximately \$40,900 at July 1, 2002, are now reported as Special Revenue Funds.

Joint Venture Interest - The City has adjusted the net assets of the Water and Sewer Fund at July 1, 2002 by \$3,092,300 to recognize the joint venture interest in the Southeast Macomb Sanitary District not previously reported. The effect on the change in net assets for 2003 and 2002 as a result of this change was not significant.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Water and Sewer Fund net assets as of June 30, 2002 have been restated as follows:

Water and sewer net assets - As previously reported	\$ 14,526,320
Capitalize certain assets which were expensed in a prior year	318,787
Joint venture interest not previously reported	<u>3,092,300</u>
Water and sewer net assets - June 30, 2002 - As restated	<u>\$ 17,937,407</u>

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The annual budget is prepared by the city manager and adopted by the City Council; subsequent amendments are approved by the City Council. Budgeted amounts of the revenues and expenditures presented for the General and Special Revenue Funds are a summarization of the budgeted amounts as originally adopted or as amended by the City Council. Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2003 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund and major Special Revenue Funds is presented in the required supplementary information. A comparison of actual results of operations to the nonmajor Special Revenue Funds budgets as adopted by the City Council is available at the City offices for inspection. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Eastpointe, Michigan incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Public safety - Building inspection	\$ 512,624	\$ 514,492	\$ (1,868)
Community enrichment and development - Planning	31,480	32,776	(1,296)
Special Revenue Fund - DARE	-	1,020	(1,020)

These unfavorable variances were caused by unanticipated expenditures that became necessary during the year.

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspections of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2003

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Cumulative shortfall - July 1, 2002	\$	(896,820)
Building permit revenue		270,743
Related expenditures:		
Direct costs	\$	514,492
Estimated indirect costs		<u>77,174</u>
Total construction code expenditures		<u>591,666</u>
Excess of expenditures over revenues		<u>(320,923)</u>
Cumulative shortfall - June 30, 2003	\$	<u><u>(1,217,743)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Employees' Retirement System, the Employees' Death Benefit Fund, and the Retiree Health Care Fund are also authorized by Michigan Public Act 485 of 1996 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small business, certain State and local government obligations, and certain other specified investment vehicles.

The City of Eastpointe, Michigan's deposits and investment policies are in accordance with statutory authority.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary - Trust and Agency Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 5,445,514	\$ 4,780,060	\$ 13,089,776	\$ 23,315,350	\$ 107,960
Investments	-	-	34,569,386	34,569,386	-
Total	<u>\$ 5,445,514</u>	<u>\$ 4,780,060</u>	<u>\$ 47,659,162</u>	<u>\$ 57,884,736</u>	<u>\$ 107,960</u>

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 1,199,485	\$ 107,960
Investments in securities, mutual funds, and similar vehicles	56,670,051	-
Petty cash or cash on hand	15,200	-
Total	<u>\$ 57,884,736</u>	<u>\$ 107,960</u>

Deposits

The City's deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$2,278,000. Of that amount, approximately \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories.

Note 3 - Deposits and Investments (Continued)

Investments

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2003. Risk Category I includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent in the City's name

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the City's name

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	I	2	3	
Primary government:				
U.S. government securities	\$ -	\$ -	\$ 4,553,600	\$ 4,553,600
Corporate bonds and other securities	-	-	5,099,055	5,099,055
Corporate stock	-	-	24,916,734	24,916,734
Subtotal	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,569,389</u>	34,569,389
Investments not subject to categorization:				
Bank investment pool funds				2,906,421
Mutual funds				<u>19,194,241</u>
Total primary government				<u>\$ 56,670,051</u>

Note 3 - Deposits and Investments (Continued)

The bank investment pools and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The City believes that the investments comply with the investment authority noted above. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act and the fair value of the position in the pool is the same as the value of the pool shares.

Included in the fiduciary fund's investments at June 30, 2003 are the following:

- Approximately \$2,704,000 of securities issued by the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC). These investments are backed only by the applicable government agency. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Component Units

The cash and cash equivalents of the City's component units consist of bank deposits of \$107,959. Of that amount, \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2003

Note 4 - Capital Assets

Capital asset activity of the City's governmental (and business-type) activities was as follows:

	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,466,041	\$ 125,197	\$ -	\$ 1,591,238
Infrastructure construction in progress	6,366,291	3,561,980	-	9,928,271
Subtotal	7,832,332	3,687,177	-	11,519,509
Capital assets being depreciated:				
Infrastructure:				
Roads	11,972,895	183,776	-	12,156,671
Sidewalks	4,602,400	518,392	-	5,120,792
Buildings and building improvements	11,923,516	5,615	-	11,929,131
Machinery and equipment	4,738,776	305,824	18,000	5,026,600
Subtotal	33,237,587	1,013,607	18,000	34,233,194
Accumulated depreciation:				
Infrastructure:				
Roads	10,775,611	478,918	-	11,254,529
Sidewalks	1,805,577	242,560	-	2,048,137
Buildings and building improvements	6,513,748	401,153	-	6,914,901
Machinery and equipment	2,467,518	581,912	18,000	3,031,430
Subtotal	21,562,454	1,704,543	18,000	23,248,997
Net capital assets being depreciated	11,675,133	(690,936)	-	10,984,197
Net capital assets	\$ 19,507,465	\$ 2,996,241	\$ -	\$ 22,503,706
Business-type activities:				
Capital assets being depreciated:				
Buildings	\$ 306,054	\$ 5,197	\$ -	\$ 311,251
Utility system	16,653,814	329,287	-	16,983,101
Machinery and equipment	1,252,333	255,125	-	1,507,458
Subtotal	18,212,201	589,609	-	18,801,810
Accumulated depreciation:				
Buildings	265,208	15,563	-	280,771
Utility system	8,477,080	424,577	-	8,901,657
Machinery and equipment	1,255,295	150,746	-	1,406,041
Subtotal	9,997,583	590,886	-	10,588,469
Net capital assets	\$ 8,214,618	\$ (1,277)	\$ -	\$ 8,213,341

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2003

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 743,458
Public safety	252,125
Public works	61,396
Judicial	123,687
Recreation and culture	<u>523,877</u>

Total governmental activities	<u>\$ 1,704,543</u>
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Business-type activities - Water and sewer	<u>\$ 590,886</u>
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Construction Commitments - The City has an active construction project at year end for the Lake St. Clair Clean Water Initiative Construction project administered by the Macomb County Drain Commission. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
SEMSD Clean Water Initiative Construction project	<u>\$ 9,985,856</u>	<u>\$ 1,348,311</u>

The remaining project commitment is expected to be funded through County Drain obligations.

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from other funds:		
General Fund	Nonmajor governmental funds	\$ 13,357
Nonmajor governmental funds	General Fund	<u>786</u>
	Total	<u>\$ 14,143</u>

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2003

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

Fund Transferred From	Fund Transferred To	Amount
General Fund	Fire Fund	\$ 1,821,822
	Nonmajor governmental funds	<u>483,875</u>
	Total General Fund	2,305,697
Fire Fund	Nonmajor governmental funds	134,000
Major Streets Fund	General Fund	15,500
	Local Streets Fund	<u>219,185</u>
	Total Major Streets Fund	234,685
Local Streets Fund	General Fund	10,200
Water and Sewer Fund	General Fund	385,000
	Nonmajor governmental funds	<u>350,660</u>
	Total Water and Sewer Fund	<u>735,660</u>
	Total	<u><u>\$ 3,420,242</u></u>

Transfers provided funding for capital projects, capital acquisitions, and debt service.

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences and certain risk liabilities.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental activities:						
General obligation bonds:						
Building Authority General Obligation Bonds						
Amount of issue - \$4,400,000	4.25% -	\$235,000 -				
Maturing through 2014	4.70%	\$460,000	\$ 4,300,000	\$ (210,000)	\$ 4,090,000	\$ 235,000
City's proportionate share of the South Macomb Disposal Authority Bonds						
Amount of issue - \$2,412,000	5.00% -	\$134,469 -				
	5.38%	\$247,833	2,412,000	(2,412,000) *	-	-
County Drain Contracts:						
Act 342 Relief Drain						
Amount of issue - \$2,904,589						
Maturing through 2003	6.50%	-	249,327	(249,327)	-	-
Lake St. Clair Clean Water Initiative						
Amount of issue - \$9,907,657	2.50% -	\$84,926 -				
Maturing through 2030	5.125%	\$604,854	6,366,291	3,541,366	9,907,657	361,869
Total bond obligations			13,327,618	670,039	13,997,657	596,869
Other long-term obligations:						
Compensated absences			1,127,352	142,737	1,270,089	-
Uninsured losses (Note 7)			545,005	(176,825)	368,180	-
Total governmental activities			14,999,975	635,951	15,635,926	596,869
Business-type activities - Water and Sewer						
Fund obligations - Compensated absences			71,237	(9,561)	61,677	-
Total			\$ 15,071,212	\$ 626,390	\$ 15,697,603	\$ 596,869

* During 2003, the South Macomb Disposal Authority defeased its outstanding bonds using proceeds from an insurance settlement. Accordingly, the City's share of these bonds has been removed from the bond obligations.

Component unit - 1992 Downtown Development
Authority Bonds

Amount of issue - \$995,000		\$65,000 -				
Maturing through 2011	6.00%	\$90,000	\$ 700,000	\$ (60,000)	\$ 640,000	\$ 65,000

Annual debt service requirements to maturity for the above bond obligations are as follows:

Year Ended June 30	Governmental Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 596,869	\$ 514,164	\$ 1,111,033	\$ 65,000	\$ 36,450	\$ 101,450
2005	643,739	477,287	1,121,026	70,000	32,400	102,400
2006	682,930	437,325	1,120,255	75,000	28,050	103,050
2007	727,493	414,124	1,141,617	85,000	23,250	108,250
2008	767,056	388,968	1,156,024	85,000	18,150	103,150
2009-2013	4,408,750	1,500,887	5,909,637	260,000	23,700	283,700
2014-2018	3,001,205	784,316	3,785,521	-	-	-
2019-2023	2,494,175	383,458	2,877,633	-	-	-
2024-2028	460,751	115,560	576,311	-	-	-
2029-2033	214,689	11,206	225,895	-	-	-
Total	\$ 13,997,657	\$ 5,027,295	\$ 19,024,952	\$ 640,000	\$ 162,000	\$ 802,000

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Long-term Debt (Continued)

Defeased Debt - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2003, \$3,925,000 of bonds outstanding are considered defeased.

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits; settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The City participates in the Michigan Municipal Risk Management Authority risk pool for claims other than medical benefits.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City of Eastpointe, Michigan.

The City is self-funded for claims up to a retention amount, at which time the City's reinsurance coverage begins. The City estimates the liability for claims that have been incurred through the end of the year, including both those claims that have been reported as well as those that have not been reported.

Changes in the estimated liability by category for the past two fiscal years were as follows:

	General Liability, Auto, and Property		Workers' Compensation	
	2003	2002	2003	2002
Estimated liability - Beginning of year	\$ 521,172	\$ 453,394	\$ 23,833	\$ 63,930
Estimated claims incurred, including changes in estimates	86,875	317,778	172,507	70,584
Claims payments	(250,000)	(250,000)	(186,207)	(110,681)
Estimated liability - End of year	<u>\$ 358,047</u>	<u>\$ 521,172</u>	<u>\$ 10,133</u>	<u>\$ 23,833</u>

Note 8 - Defined Benefit Pension Plan

Plan Description - The City of Eastpointe Employees' Retirement System is the administrator of a single-employer public employees' retirement system, established pursuant to collective bargaining agreements that cover all full-time employees of the City. The system provides retirement and death benefits to plan members and their beneficiaries. At June 30, 2002, the date of the most recent actuarial valuation, membership consisted of 167 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 165 current active employees.

Contributions - Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Plan members are not required to contribute. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Costs - For the year ended June 30, 2003, the City's annual pension cost was \$174,637 for the plan. The annual required contribution was \$174,637; however, the City made no contributions to the plan during the year. The annual required contribution was determined as part of an actuarial valuation at June 30, 2001, using the individual entry age actuarial funding method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return; (b) projected salary increases of 4 percent to 7 percent per year; and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 15 years.

Reserves - As of June 30, 2003, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 607,636
Reserve for retired benefit payments	33,908,844

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2003

Note 8 - Defined Benefit Pension Plan (Continued)

Three-year trend information as of June 30 follows:

Year Ended June 30	Annual Pension Cost (APC)	Percentage of	
		APC Contributed	Net Pension Obligation
2001	\$ -	100	\$ -
2002	10,978	-	10,978
2003	174,184	-	185,162

Note 9 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 158 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$1,430,000.

Note 10 - Joint Ventures

The City is a member of the Southeast Macomb Sanitary District, which provides sewage to participating municipalities in Macomb County, Michigan. Other members include the cities of Roseville and St. Clair Shores, Michigan. The City appoints one member to the joint venture's governing board, who then approve the annual budgets. The City's equity interest of \$3,217,456 is recorded in the Water and Sewer Fund financial statements and within the business-type activities column in the statement of net assets. Complete financial statements for the South Macomb Sanitary District can be obtained from the administrative offices at 20001 Pleasant Avenue, Box 286, St. Clair Shores, MI 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 10 - Joint Ventures (Continued)

The City is a member of the South Macomb Disposal Authority, which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Center Line, Roseville, St. Clair Shores, and Warren, Michigan. The City appoints one member to the joint venture's governing board, who then approve the annual budgets. The City's equity interest in the Authority's operating reserve of \$358,624 is recorded within the governmental activities column of the statement of activities. The Authority has reserves totaling approximately \$13.8 million that have been designated for self-insurance activities; the participating communities' equity interest in the insurance reserves is not determinable. Complete financial statements for the South Macomb Disposal Authority can be obtained from the administrative offices at 20001 Pleasant Avenue, Box 286, St. Clair Shores, MI 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 11 - Employees' Death Benefit Fund

The Employees' Death Benefit Fund was established by the City Ordinance on October 13, 1958 for the purpose of providing a death benefit for employees who elect to participate in the plan. Prior year contributions from the City and plan members have been determined to be sufficient to fully fund the plan at June 30, 2003. Benefits at date of death are payable to designated beneficiaries in varying amounts. The obligation to contribute and maintain the plan was established by negotiation with the City's collective bargaining units.

Required Supplemental Information

City of Eastpointe, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 8,360,097	\$ 8,422,468	\$ 8,423,226	\$ 758
Licenses and permits	620,000	723,113	658,219	(64,894)
State-shared revenues (and grants)	4,584,969	4,409,851	4,406,498	(3,353)
Charges for services	318,100	335,800	326,251	(9,549)
Rental income	138,050	138,050	146,637	8,587
Fines and forfeits	1,875,135	1,875,135	1,895,708	20,573
Interest and rentals	75,000	75,000	58,217	(16,783)
Other	127,390	153,807	272,933	119,126
Total revenue	16,098,741	16,133,224	16,187,689	54,465
Expenditures				
General government:				
City council	27,951	27,951	17,868	10,083
City manager	421,744	421,744	406,995	14,749
City clerk and elections	206,730	206,730	154,126	52,604
Finance	852,585	852,585	728,186	124,399
Assessor	278,915	278,915	275,059	3,856
Law	201,735	195,525	186,208	9,317
Judicial - Municipal court	774,888	774,888	759,600	15,288
General operating	3,082,470	3,127,963	2,855,377	272,586
Public safety:				
Police	5,321,515	5,638,223	5,637,638	585
Fire	2,149,636	23,900	11,777	12,123
Building inspection	500,174	512,624	514,492	(1,868)
Public works - Administration	533,309	389,058	351,970	37,088
Recreation and culture:				
Administration	695,759	662,205	529,905	132,300
Parks	581,092	583,093	492,433	90,660
Kennedy park pool	145,216	145,216	112,580	32,636
Senior citizens' center	245,175	247,275	207,841	39,434
Senior citizen SMART	59,290	59,290	47,585	11,705
Community enrichment and development:				
Planning	31,480	31,480	32,776	(1,296)
Beautification	24,800	24,800	4,454	20,346
Total expenditures	16,134,464	14,203,465	13,326,870	876,595

City of Eastpointe, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Excess of Revenue Over (Under)				
Expenditures	\$ (35,723)	\$ 1,929,758	\$ 2,860,819	\$ 931,061
Other Financing Sources (Uses)				
Transfers in	410,700	410,700	410,700	-
Transfers out	(734,077)	(2,388,632)	(2,305,697)	82,935
Total other financing sources (uses)	(323,377)	(1,977,932)	(1,894,997)	82,935
Net Change in Fund Balance	(359,100)	(48,174)	965,822	1,013,996
Fund Balance - Beginning of year	2,773,698	2,773,698	2,773,698	-
Fund Balance - End of year	<u><u>\$ 2,414,598</u></u>	<u><u>\$ 2,725,524</u></u>	<u><u>\$ 3,739,520</u></u>	<u><u>\$ 1,013,996</u></u>

City of Eastpointe, Michigan

	Fire Fund			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
Revenue				
Property taxes	\$ 628,455	\$ 628,455	\$ 625,832	\$ (2,623)
Charges for services	300,000	300,000	244,184	(55,816)
Interest	10,000	10,000	768	(9,232)
Total revenue	938,455	938,455	870,784	(67,671)
Expenditures				
Public safety	344,242	2,627,657	2,527,585	100,072
Public works	-	-	-	-
Total expenditures	344,242	2,627,657	2,527,585	100,072
Excess of Revenue Over (Under) Expenditures	594,213	(1,689,202)	(1,656,801)	32,401
Other Financing Sources (Uses)				
Transfers in	42,862	1,821,822	1,821,822	-
Transfers out	(134,000)	(134,000)	(134,000)	-
Total other financing sources (uses)	(91,138)	1,687,822	1,687,822	-
Net Change in Fund Balances	503,075	(1,380)	31,021	32,401
Fund Balances - Beginning of year	115,720	115,720	115,720	-
Fund Balances - End of year	<u>\$ 618,795</u>	<u>\$ 114,340</u>	<u>\$ 146,741</u>	<u>\$ 32,401</u>

Required Supplemental Information
Budgetary Comparison Schedule
Major Special Revenue Funds
Year Ended June 30, 2003

Garbage and Rubbish Collection Fund			
Original Budget	Amended Budget	Actual	Variance with Amended Budget
\$ 1,631,183	\$ 1,625,806	\$ 1,630,056	\$ 4,250
55,000	55,000	21,945	(33,055)
25,000	25,000	14,313	(10,687)
1,711,183	1,705,806	1,666,314	(39,492)
-	-	-	-
1,967,250	1,961,873	1,454,272	507,601
1,967,250	1,961,873	1,454,272	507,601
(256,067)	(256,067)	212,042	468,109
-	-	-	-
-	-	-	-
-	-	-	-
(256,067)	(256,067)	212,042	468,109
259,476	259,476	259,476	-
\$ 3,409	\$ 3,409	\$ 471,518	\$ 468,109

City of Eastpointe, Michigan

	Major Streets Fund			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
Revenue				
State-shared revenue (and grants)	\$ 1,212,645	\$ 1,212,645	\$ 1,436,994	\$ 224,349
Interest	10,000	10,000	6,388	(3,612)
Total revenue	1,222,645	1,222,645	1,443,382	220,737
Expenditures - Public works	1,122,266	1,122,266	965,528	156,738
Excess of Revenues Over Expenditures	100,379	100,379	477,854	377,475
Other Financing Uses				
Transfers in	-	-	-	-
Transfers out	(453,870)	(453,870)	(234,685)	219,185
Total other financing sources (uses)	(453,870)	(453,870)	(234,685)	219,185
Net Change in Fund Balances	(353,491)	(353,491)	243,169	596,660
Fund Balances - Beginning of year	542,411	542,411	542,411	-
Fund Balances - End of year	<u>\$ 188,920</u>	<u>\$ 188,920</u>	<u>\$ 785,580</u>	<u>\$ 596,660</u>

Required Supplemental Information
Budgetary Comparison Schedule
Major Special Revenue Funds (Continued)
Year Ended June 30, 2003

Local Streets Fund			
Original Budget	Amended Budget	Actual	Variance with Amended Budget
\$ 491,498	\$ 491,498	\$ 510,731	\$ 19,233
10,000	10,000	13,653	3,653
501,498	501,498	524,384	22,886
986,992	986,992	715,654	271,338
(485,494)	(485,494)	(191,270)	294,224
438,370	438,370	219,185	(219,185)
(10,200)	(10,200)	(10,200)	-
428,170	428,170	208,985	(219,185)
(57,324)	(57,324)	17,715	75,039
833,361	833,361	833,361	-
\$ 776,037	\$ 776,037	\$ 851,076	\$ 75,039

City of Eastpointe, Michigan

Required Supplemental Information Retirement System Schedule of Funding Progress June 30, 2003

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	Unfunded (Overfunded) AAL as a Percentage of Covered Payroll
6/30/97 **	\$ 38,091,015	\$ 39,648,271	\$ 1,557,256	96	\$ 6,621,146	24
06/30/98	42,343,648	41,285,899	(1,057,749)	103	7,349,099	(14)
06/30/99 *	51,377,333	39,535,364	(11,841,969)	130	7,845,331	(151)
06/30/00 **	55,708,876	41,289,971	(14,418,905)	135	8,455,767	(171)
06/30/01	58,294,299	42,719,710	(15,574,589)	136	8,484,620	(184)
06/30/02 **	58,305,372	45,584,633	(12,720,739)	128	9,030,827	(141)

* Includes changes in actuarial assumptions

** Includes changes in benefit provisions

City of Eastpointe, Michigan

Required Supplemental Information Retirement System Schedule of Employer Contributions June 30, 2003

The schedule of employer contributions is as follows:

Fiscal Year Ended June 30	Annual Required Contribution*	Percentage Contributed
1998	\$ 1,161,442	100
1999	994,664	100
2000	-	100
2001	-	100
2002	10,978	-
2003	174,637	-

* The required contribution is expressed to the City as a percentage of payroll.

The above contributions are for pension benefits only and do not include amounts contributed for health care coverage. Amounts contributed for health care coverage are recorded in the City's Retiree Health Care Fund, which was established during the City's year ended June 30, 2000.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2002, the latest actuarial valuation, follows:

Valuation date	June 30, 2002
Actuarial cost method	Individual entry age
Amortization method	Level percent open
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	4% - 7%
*Includes inflation at	4%
Cost of living adjustments	None

Other Supplemental Information

City of Eastpointe, Michigan

	Nonmajor Special					
	Community Development Block Grant	Library	Drug Law Enforcement	DARE	Local Law Enforcement	Juvenile Justice
Assets						
Cash and cash equivalents	\$ -	\$ 49,618	\$ 73,684	\$ -	\$ 21,245	\$ -
Due from other funds	-	-	-	-	-	786
Due from other governmental units	400	39,162	-	-	-	13,513
Total assets	\$ 400	\$ 88,780	\$ 73,684	\$ -	\$ 21,245	\$ 14,299
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ 9,506	\$ 1,600	\$ -	\$ -	\$ -
Accrued and other liabilities	-	20,024	6,807	-	-	1,342
Due to other funds	400	-	-	-	-	12,957
Total liabilities	400	29,530	8,407	-	-	14,299
Fund Balances - Unreserved						
Designated for debt service	-	-	-	-	-	-
Designated for capital improvements	-	-	-	-	-	-
Undesignated	-	59,250	65,277	-	21,245	-
Total fund balances	-	59,250	65,277	-	21,245	-
Total liabilities and fund balances	\$ 400	\$ 88,780	\$ 73,684	\$ -	\$ 21,245	\$ 14,299

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003**

Revenue Funds				Nonmajor Debt Service Funds			
Welfare and Catastrophe	Community Center	Eastpointe Fire	Memorial Library	Debt Service	Building Authority	Chapter 20 Drain Debt Service	Act 342
\$ 20,578	\$ 12,366	\$ 2,694	\$ 7,421	\$ 108,638	\$ 192	\$ 84,163	\$ 19,166
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$ 20,578	\$ 12,366	\$ 2,694	\$ 7,421	\$ 108,638	\$ 192	\$ 84,163	\$ 19,166
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	108,638	192	84,163	19,166
-	-	-	-	-	-	-	-
20,578	12,366	2,694	7,421	-	-	-	-
20,578	12,366	2,694	7,421	108,638	192	84,163	19,166
\$ 20,578	\$ 12,366	\$ 2,694	\$ 7,421	\$ 108,638	\$ 192	\$ 84,163	\$ 19,166

City of Eastpointe, Michigan

Other Supplemental Information Combining Balance Sheet (Continued) Nonmajor Governmental Funds June 30, 2003

	Nonmajor Capital Projects Funds		Total Nonmajor Governmental Funds
	Equipment Replacement	Building Authority Construction	
Assets			
Cash and cash equivalents	\$ 337,307	\$ 69,678	\$ 806,750
Due from other funds	-	-	786
Due from other governmental units	-	-	53,075
Total assets	<u>\$ 337,307</u>	<u>\$ 69,678</u>	<u>\$ 860,611</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ -	\$ 11,106
Accrued and other liabilities	-	-	28,173
Due to other funds	-	-	13,357
Total liabilities	-	-	52,636
Fund Balances - Unreserved			
Designated for debt service	-	-	212,159
Designated for capital improvements	337,307	69,678	406,985
Undesignated	-	-	188,831
Total fund balances	<u>337,307</u>	<u>69,678</u>	<u>807,975</u>
Total liabilities and fund balances	<u>\$ 337,307</u>	<u>\$ 69,678</u>	<u>\$ 860,611</u>

City of Eastpointe, Michigan

	Nonmajor Special					
	Community Development Block Grant	Library	Drug Law Enforcement	DARE	Local Law Enforcement	Juvenile Justice
Revenue						
Property taxes	\$ -	\$ 593,599	\$ -	\$ -	\$ -	\$ -
Intergovernmental:						
Federal sources	-	-	-	-	52,262	87,050
State sources	-	28,287	-	-	-	-
Charges for services	-	3,290	-	-	-	-
Rental income	-	4,378	-	-	-	-
Fines and forfeits	-	62,294	97,602	-	-	-
Interest	-	3,183	1,855	-	456	-
Other	-	-	-	-	-	53,938
Total revenue	-	695,031	99,457	-	52,718	140,988
Expenditures						
Current:						
Public safety	-	-	205,980	1,020	41,466	144,518
Public works	-	-	-	-	-	-
Recreation and culture	-	710,574	-	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	-	710,574	205,980	1,020	41,466	144,518
Excess of Revenue Over (Under)						
Expenditures	-	(15,543)	(106,523)	(1,020)	11,252	(3,530)
Other Financing Sources -						
Transfers in	-	-	-	-	4,603	786
Net Change in Fund Balances	-	(15,543)	(106,523)	(1,020)	15,855	(2,744)
Fund Balances - Beginning of year	-	74,793	171,800	1,020	5,390	2,744
Fund Balances - End of year	<u>\$ -</u>	<u>\$ 59,250</u>	<u>\$ 65,277</u>	<u>\$ -</u>	<u>\$ 21,245</u>	<u>\$ -</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2003

Revenue Funds				Nonmajor Debt Service Funds			
Welfare and Catastrophe	Community Center	Eastpointe Fire	Memorial Library	Debt Service	Building Authority	Chapter 20 Drain Debt Service	Act 342
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 750,079	\$ 259,198
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
326	222	34	109	507	-	3,793	196
-	50	2,501	1,070	-	-	-	-
326	272	2,535	1,179	507	-	753,872	259,394
-	-	-	-	-	-	-	-
-	-	-	-	-	299	746,586	170
-	2,186	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	20,615	210,000	-	249,328
-	-	-	-	285,073	193,958	-	8,103
-	2,186	-	-	305,688	404,257	746,586	257,601
326	(1,914)	2,535	1,179	(305,181)	(404,257)	7,286	1,793
-	-	-	-	413,728	404,358	-	-
326	(1,914)	2,535	1,179	108,547	101	7,286	1,793
20,252	14,280	159	6,242	91	91	76,877	17,373
<u>\$ 20,578</u>	<u>\$ 12,366</u>	<u>\$ 2,694</u>	<u>\$ 7,421</u>	<u>\$ 108,638</u>	<u>\$ 192</u>	<u>\$ 84,163</u>	<u>\$ 19,166</u>

City of Eastpointe, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2003

	<u>Nonmajor Capital Projects Funds</u>		
	Equipment Replacement	Building Authority Construction	Total Nonmajor Governmental Funds
Revenue			
Property taxes	\$ -	\$ -	\$ 1,602,876
Intergovernmental:			
Federal sources	-	-	139,312
State sources	-	-	28,287
Charges for services	-	-	3,290
Rental income	140,821	-	145,199
Fines and forfeits	-	-	159,896
Interest	4,552	1,183	16,416
Other	-	-	57,559
Total revenue	145,373	1,183	2,152,835
Expenditures			
Current:			
Public safety	-	-	392,984
Public works	-	-	747,055
Recreation and culture	-	-	712,760
Capital outlay	241,448	-	241,448
Debt service:			
Principal	-	-	479,943
Interest	-	-	487,134
Total expenditures	241,448	-	3,061,324
Excess of Revenue Over (Under)			
Expenditures	(96,075)	1,183	(908,489)
Other Financing Sources -			
Transfers in	145,060	-	968,535
Net Change in Fund Balances	48,985	1,183	60,046
Fund Balances - Beginning of year	288,322	68,495	747,929
Fund Balances - End of year	<u>\$ 337,307</u>	<u>\$ 69,678</u>	<u>\$ 807,975</u>

City of Eastpointe, Michigan

	Pension and Other Employee Benefit Trust Funds			
	Employees' Retirement System	Employees' Death Benefit	Retiree Health Care	Totals
Assets				
Cash and cash equivalents	\$ 12,700,965	\$ 22,591	\$ 220,243	\$ 12,943,799
Investments	<u>33,162,120</u>	<u>790,408</u>	<u>616,858</u>	<u>34,569,386</u>
Total assets	45,863,085	812,999	837,101	47,513,185
Liabilities				
Accounts payable	51,516	-	-	51,516
Accrued liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>51,516</u>	<u>-</u>	<u>-</u>	<u>51,516</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 45,811,569</u>	<u>\$ 812,999</u>	<u>\$ 837,101</u>	<u>\$ 47,461,669</u>

**Other Supplemental Information
Combining Statement of Net Assets
Fiduciary Funds
June 30, 2003**

Agency Funds				
Cash and Performance Bonds	Imprest Payroll	Municipal Court	AFLAC	Total
\$ 39,562	\$ 13	\$ 104,361	\$ 2,041	\$ 145,977
-	-	-	-	-
<u>\$ 39,562</u>	<u>\$ 13</u>	<u>\$ 104,361</u>	<u>\$ 2,041</u>	<u>\$ 145,977</u>
\$ 6,437	\$ -	\$ -	\$ -	\$ 6,437
33,125	13	104,361	2,041	139,540
<u>\$ 39,562</u>	<u>\$ 13</u>	<u>\$ 104,361</u>	<u>\$ 2,041</u>	<u>\$ 145,977</u>

City of Eastpointe, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2003

	Employees' Retirement System	Employees' Death Benefit	Retiree Health Care	Totals
Additions				
Investment income (loss):				
Interest and dividends	\$ 1,423,058	\$ 58,840	\$ 7,236	\$ 1,489,134
Net adjustment to fair value of investments	(136,609)	3,650	(2,542)	(135,501)
Less investment expenses	(245,292)	-	-	(245,292)
Net investment income	1,041,157	62,490	4,694	1,108,341
Employer contributions	-	-	1,614,543	1,614,543
Total additions	1,041,157	62,490	1,619,237	2,722,884
Deductions				
Benefit payments	2,801,664	24,000	-	2,825,664
Health insurance premiums	-	-	1,429,610	1,429,610
Administrative expenses	8,397	-	-	8,397
Total deductions	2,810,061	24,000	1,429,610	4,263,671
Change in Net Assets	(1,768,904)	38,490	189,627	(1,540,787)
Net Assets - Beginning of year	47,580,473	774,509	647,474	49,002,456
Net Assets - End of year	<u>\$ 45,811,569</u>	<u>\$ 812,999</u>	<u>\$ 837,101</u>	<u>\$ 47,461,669</u>

City of Eastpointe, Michigan

Schedule of Indebtedness June 30, 2003

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2003	2002
County Drain Contracts					
Act 342 Relief Drain					
Date of issue - October 1, 1978					
Amount of issue - \$2,904,589					
	6.50	11/01/02	\$ 249,327	\$ -	\$ 249,327
Lake St. Clair Clean Water Initiative Drainage District:					
Drainage District Bonds					
Date of issue - Various					
Amount of issue - \$9,907,657					
	Various	10/01/02	20,633	-	20,633
	Various	10/01/03	361,869	361,869	21,812
	Various	10/01/04	378,739	378,739	224,636
	Various	10/01/05	392,930	392,930	231,210
	Various	10/01/06	402,493	402,493	238,374
	Various	10/01/07	412,056	412,056	244,949
	Various	10/01/08	422,911	422,911	250,511
	Various	10/01/09	434,139	434,139	257,675
	Various	10/01/10	447,706	447,706	264,249
	Various	10/01/11	458,560	458,560	272,425
	Various	10/01/12	470,434	470,434	280,179
	Various	10/01/13	484,625	484,625	287,343
	Various	10/01/14	497,186	497,186	296,109
	Various	10/01/15	509,728	509,728	303,863
	Various	10/01/16	525,209	525,209	313,218
	Various	10/01/17	539,457	539,457	321,561
	Various	10/01/18	556,271	556,271	331,506
	Various	10/01/19	572,772	572,772	340,861
	Various	10/01/20	585,980	585,980	350,806
	Various	10/01/21	604,854	604,854	361,341
	Various	10/01/22	174,298	174,298	373,644
	Various	10/01/23	92,712	92,712	379,714
	Various	10/01/24	84,926	84,926	59,539
	Various	10/01/25	89,315	89,315	62,487
	Various	10/01/26	94,371	94,371	66,024
	Various	10/01/27	99,427	99,427	69,561
	Various	10/01/28	104,482	104,482	73,098
	Various	10/01/29	110,207	110,207	68,963
				<u>9,907,657</u>	<u>6,366,291</u>
Total drain contracts payable to County				9,907,657	6,615,618

City of Eastpointe, Michigan

Schedule of Indebtedness (Continued) June 30, 2003

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2003	2002
General Obligation Bonds					
Building Authority General Obligation Bonds					
Date of issue - August 20, 1998					
Amount of issue - \$4,400,000					
	4.20	05/01/03	\$ 210,000	\$ -	\$ 210,000
	4.25	05/01/04	235,000	235,000	235,000
	4.30	05/01/05	265,000	265,000	265,000
	4.35	05/01/06	290,000	290,000	290,000
	4.40	05/01/07	325,000	325,000	325,000
	4.45	05/01/08	355,000	355,000	355,000
	4.50	05/01/09	390,000	390,000	390,000
	4.55	05/01/10	420,000	420,000	420,000
	4.60	05/01/11	460,000	460,000	460,000
	4.65	05/01/12	455,000	455,000	455,000
	4.70	05/01/13	450,000	450,000	450,000
	4.70	05/01/14	445,000	445,000	445,000
				<u>4,090,000</u>	<u>4,300,000</u>
City's proportionate share of South Macomb Disposal Authority Bonds *					
Date of issue - December 20, 2000					
Amount of issue - \$2,412,000					
	5.23	9/01/01-07	-	-	-
	5.00	9/01/08	134,469	-	134,469
	5.00	9/01/09	141,102	-	141,102
	5.00	9/01/10	148,338	-	148,338
	5.38	9/01/11	155,574	-	155,574
	5.38	9/01/12	164,016	-	164,016
	5.38	9/01/13	173,061	-	173,061
	5.38	9/01/14	182,106	-	182,106
	5.38	9/01/15	191,754	-	191,754
	5.13	9/01/16	202,005	-	202,005
	5.13	9/01/17	212,859	-	212,859
	5.25	9/01/18	223,713	-	223,713
	5.25	9/01/19	235,170	-	235,170
	5.25	9/01/20	247,833	-	247,833
				<u>-</u>	<u>2,412,000</u>
Total general obligation bonds				<u>4,090,000</u>	<u>6,712,000</u>
Total indebtedness				<u>\$ 13,997,657</u>	<u>\$ 13,327,618</u>

* During 2003, the South Macomb Disposal Authority defeased its outstanding bonds using proceeds from an insurance settlement. Accordingly, the City's share of these bonds has been removed from the bond obligations.